

**REPORT OF THE AUDIT COMMITTEE OF THE
BOARD OF DIRECTORS OF THE
COOK COUNTY HEALTH AND HOSPITALS SYSTEM**

JULY 17, 2008

ATTENDANCE

Present: Chairman Luis Muñoz, MD, MPH; Chairman of the Board Warren L. Batts and Directors Hon. Jerry Butler; Benn Greenspan, PhD, MPH, FACHE; Heather E. O'Donnell, JD, LLM (5)

Also Present: Director Jerry Butler, Patrick T. Driscoll, Jr. – Deputy State's Attorney, Chief, Civil Actions Bureau, Office of the State's Attorney; Elizabeth Reidy - Deputy Chief, Civil Actions Bureau, Office of the State's Attorney; Michelle Agrest – Senior Manager, Deloitte & Touche; Laura Burman – Cook County Auditor; Donna Dunning – Chief Financial Officer of Cook County; Joseph Fratto – Chief of Staff to President Todd H. Stroger; Patrick J. Hagan – Lead Client Partner, Deloitte & Touche; John Morales – Cook County Comptroller and Acting Interim Chief Financial Officer of Stroger Hospital of Cook County; Don O'Callaghan – Healthcare Partner, Deloitte & Touche; Cook County Commissioner Anthony J. Peraica; Deborah Santana – Office of the Secretary to the Board; David Small – Chief Operating Officer, Cook County Bureau of Health Services;

Ladies and Gentlemen:

Your Audit Committee of the Board of Directors of the Cook County Health and Hospitals System met pursuant to notice on Thursday, July 17, 2008 at the hour of 7:30 A.M. at 1900 West Polk Street, Second Floor, Chicago, Illinois.

Your Committee has considered the following items and upon adoption of this report, the recommendations follow.

Deborah Santana, of the Office of the Secretary to the Board, called the roll of members and it was determined that a quorum was present.

Chairman Muñoz welcomed the members of the Audit Committee and gave brief remarks.

Presentation by Patrick T. Driscoll, Jr.

Chairman Muñoz called upon Patrick T. Driscoll, Jr., Deputy State's Attorney and Chief of the Civil Actions Bureau, to address the committee.

Mr. Driscoll stated that Section 38-88 of the Ordinance that creates the Board of Directors of the Cook County Health and Hospitals System talks about managerial and financial oversight; the important parts of the Ordinance that will apply to the Audit Committee and to the Board is as follows: it is mandated by the Ordinance in subsection a(1) that the System Board appoint a certified public accountant to do an annual audit of the System's Board's financial statement, and then the County Board can direct a managerial and financial assessment as part of its oversight through the ordinance which can be done on an annual basis. The County Board also does a comprehensive annual financial report which at this time

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it is underway. Further, Mr. Driscoll stated that the oversight to which the County Board refers in the ordinance can either be done by the County Auditor or by outside auditors hired by the County. The System Board must appoint a certified public accountant. In conclusion, Mr. Driscoll stated that these were his observations about the audit issues that are created by the Ordinance.

Board Chairman Batts asked if the System Board would organize and monitor the conflict of interest.

Mr. Driscoll responded that when the rules are adopted there can be a code of conduct included within that would cover conflicts of interest. These must be disclosed and may require recusal when the issue comes before the Board.

Board Chairman Batts asked to which Committee would the Corporate Compliance Officer report.

David Small, Chief Operating Officer, Cook County Bureau of Health Services stated that the Corporate Compliance Officer would report to the Audit Committee unless there is an establishment of a separate Corporate Compliance Committee.

Director Greenspan asked who from the System would staff the function when an audit is performed for the System Board as part of a County audit.

Mr. Driscoll stated that it would be the Chief Financial Officer and the individuals under his direction who would be staffing the audit process.

Director Greenspan asked who staffs that function in the absence of a Chief Financial Officer.

Mr. Driscoll stated that at this time there is an Interim Chief Financial Officer in place.

Mr. Small introduced the Interim Chief Financial Officer, Mr. Pitt Calkin. Mr. Small stated that he had provided Mr. Calkin's resume at the last Board Meeting. He added that internal audit functions in relationship to external audits would fall under his office.

Director Greenspan asked if at this time a set of working papers or a summary of the 2007 Audit was available for the System Board's review.

Mr. Small stated that Cook County Comptroller John Morales will address that at the next item of business.

Chairman Muñoz asked to let the record reflect that Director Butler is present.

In a point of clarification, Mr. Small stated that it is a question that Mr. Morales could address. However, the System Board will need to know the timing that is required and what steps the System Board may want to take in terms of finding, selecting, choosing and contracting with an external audit firm to begin the 2008 audit.

Audit Committee Rules

Chairman Muñoz asked for a motion with regard to Audit Committee Rules.

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Director Greenspan, seconded by Director O'Donnell, moved to direct the Bureau Chief Operating Officer to work with the Office of the Cook County State's Attorney to develop Audit Committee Rules to be reviewed and approved by the Audit Committee.

Director O'Donnell asked if the System Board will develop rules for each committee.

Mr. Driscoll stated that it is the recommendation of the State's Attorney's Office that the System Board of Directors adopt overall rules that will govern the operation of the System Board and within those rules can adopt a mission statement for each committee rather than having each committee adopt its own rules and regulation.

Director Greenspan, seconded by Director O'Donnell, moved to amend the previous motion to reflect the discussion that took place. The motion would read, that the Audit Committee recommends to the Board that the Bureau Chief Operating Officer work with the Office of the Cook County State's Attorney to develop Rules for the Board to include a charge for each specific committee and to be reviewed and approved by the Board of Directors at its next meeting. THE MOTION TO AMEND CARRIED UNANIMOUSLY.

On the main motion, as amended, a voice vote was taken and THE MOTION, AS AMENDED CARRIED UNANIMOUSLY.

Presentation by Cook County Comptroller John Morales

Chairman Muñoz asked John Morales, Cook County Comptroller and Acting Interim Chief Financial Officer of Stroger Hospital of Cook County, to address the Committee.

Mr. Morales stated that he would confine his remarks only to the Stroger Hospital or the Health System audit, as any items that are all-inclusive requiring a perspective or decision from the Cook County Chief Financial Officer would be addressed by Donna Dunning.

Mr. Morales introduced Laura Burman, the Cook County Auditor. He stated that she is a valuable resource available to assist the System Board with any questions that they might have. He also introduced Mr. Calvin McGee, Chief Financial Officer at Cermak Health Facility, Mr. John Cookinham, Chief Financial Officer of Oak Forest Hospital, and Ms. Dorothy Loving, Chief Financial Officer of Provident Hospital. He added that Mr. McGee has been the point person for the Health Audit for Fiscal Year 2007 from an operating day-to-day level.

Mr. Morales stated that at this time he would give a brief overview of the Fiscal Year 2007 Audit. The overall audit has gone extremely well; the Health Audit itself is probably the most complex within the Cook County organization because it is not as straight-forward as the other offices. The time table for the Health System Audit completion is on target. Every week the individuals involved at the County meet with Mr. Patrick Hagan, Partner with Deloitte & Touche, Mr. Don O'Callaghan with Deloitte & Touche, and Ms. Michelle Agrest, Senior Manager with Deloitte & Touche.

Further, Mr. Morales stated that from a historical perspective the System Board should have a clear view of where the system has been in the last 16 to 18 months when Dr. Simon was the interim Chief. At that time the County inherited a system that was facing difficulties and the audit function itself was not where it needed to be. Changes needed to be made based on the management letter from Fiscal Year 2006

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which would help improve the overall financial controls. They were able to address several issues. He added that the Fiscal Year 2006 Audit Report was delivered on time, on May 31, 2006.

Another issue previously discussed was the Board's authority to contract an independent accounting firm to be able to perform the annual audit. At this time and because of the newness of the arrangements that have been put in place to separate the System Board from the County, there was the disclosure of a multi-year contract that was entered into by the County with Deloitte & Touche.

Director O'Donnell stated that her understanding is that Deloitte & Touche does the overall County Audit and Ernest & Young does the Health audit.

Mr. Morales stated that Ernest & Young did the 2002-2006 Health audits but in 2007 the County decided to consolidate under Deloitte & Touche.

Director Greenspan requested for a summary of the current status of 2007 Audit.

Mr. Morales stated that they are still wrapping things up; all the documentations and forms of disclosures have been provided.

Director Greenspan asked Mr. Morales if he was satisfied that in August the Board has not received the wrap up of an audit for the period ended November 2007.

Mr. Morales replied that over the years the Combined Annual Financial Report (CAFR) has been issued later then the year-end closing. The planning stage is to start to roll back the amount of months going from where it was and roll it back every year and get it back as time moves on to be able to have the report released at a much earlier time frame.

Board Chairman Batts stated that the System Board should ask the public accountants if they can let us know what the earliest date would be to deliver an Audit for the hospital system.

Mr. Small asked Mr. Morales to inform the Committee when the draft management report might be available for review and discussion.

Mr. Morales replied that the target date for both the Health System, as well as the entire County, is for the end of August.

Chairman Muñoz stated to let the record reflect that Cook County Commissioner Anthony Peraica was present.

Presentation by Deloitte & Touche

Chairman Muñoz called upon Patrick J. Hagan, Lead Client Partner of Deloitte & Touche, to address the committee.

Mr. Hagan introduced Don O'Callaghan, Healthcare Partner at Deloitte & Touche, and Michelle Agrest, Senior Manager at Deloitte & Touche, who runs the day-to-day operations.

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Chairman Muñoz stated to let the record reflect that Joseph Fratto, Chief of Staff to President Todd H. Stroger is present.

Mr. Hagan distributed an overview of his presentation.

Chairman Muñoz asked Mr. Hagan to come back to the Audit Committee with some recommendations for the System in order to facilitate the audit process.

Mr. Hagan replied affirmatively.

Board Chairman Batts asked how other Public Hospitals that are connected to a County determine what their total costs are so that the hospital is able to recover that total cost.

Mr. Hagan stated that in some cases there are intergovernmental agreements; in some cases the process is done by a firm that does cost allocations.

Mr. O'Callaghan stated that if the System Board was trying to benchmark the organization against a number of other similar healthcare provider organizations, it would be critical to have the understanding of the total cost of running the business.

Mr. O'Callaghan added that that there are inter-fund types of transactions that take place between the County and the health care operations.

Mr. Small stated that on an annualized scale basis, the County estimates the malpractice cost for the County to be approximately \$70 to 75 million. Further, Mr. Small stated that it would be a misrepresentation to say that costs are not important; the County is actually being required under the federal government to move to a full-cost reimbursement recognition basis. In conclusion, Mr. Small stated that there are caps and those caps are based on cost. Costs have to be accurately reflected so that the County can get the maximum reimbursement.

Director Greenspan asked when the reconciliation occurs.

Mr. Morales stated that the 2006 Audit was just completed with the Centers for Medicare and Medicaid Services. He added that the County has an excellent Director of Cost Reimbursement, Mr. Robert Vais.

Board Chairman Batts asked if it would be fair to say that the total cost not included on the System's books ranges between 10 to 15% of the total cost.

Mr. Morales stated that it would not be unreasonable.

Director O'Donnell asked if it would be possible for Mr. Vais to give a presentation on how he calculates costs.

Mr. Small stated that it can be arranged.

Mr. Hagan reiterated that Mr. O'Callaghan and Ms. Agrest are the focus team on the health system and are available to come back to the committee at any point; he is responsible for the overall Combined Annual Financial Report (CAFR) and is also available to meet with the committee.

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Chairman Muñoz encouraged Mr. Hagan to report back to the Audit Committee.

Board Chairman Batts asked if there is an internal audit function.

Mr. Small stated that Provident Hospital has recently brought on an individual who is assigned to be doing internal audit. There is not an internal audit function for the system overall. From time to time the Bureau of Health asks the County Auditor for assistance, however some of the resources at the County Auditor's office have recently moved over to key positions with the System. In conclusion, Mr. Small stated that it will be the Bureau of Health's recommendation to the Audit Committee and to the Board as a whole that an internal audit function be developed. Appropriation of dollars and resources is essential for this.

Director O'Donnell inquired whether the internal audit function position was included in the 2008 budget.

Mr. Small responded that there currently is no budget position or resources for an internal audit function position either in the current 2008 budget or in the place-holder 2009 budget.

Mr. Hagan stated that he is providing the Audit Committee with the Public Sector Audit Committee Resource Guide and other materials.

Corporate Compliance Issues

Chairman Muñoz asked Mr. Patrick Driscoll discuss some of the System Board's obligations with regard to corporate compliance.

Mr. Driscoll stated that the Ordinance does provide generally functional duties of the System Board; the State's Attorney's Office will be working with staff to finalize procedures.

Mr. Small stated that at the System Board's direction, the recruitment process for the position of Corporate Chief Compliance Officer has begun. The position has been posted both internally and externally.

Mr. Small stated that it is the intention to get the corporate compliance program up and running as rapidly as possible. He added that this was one area of the system that unfortunately over the last several years suffered from staff reductions; it is a program that has languished and needs to be fully reinvigorated.

Chairman Muñoz asked how it is presently reported.

Mr. Small stated that it happens in a variety of ways. Staffers may bring it directly to their Union representative and it finds its way up the ladder. The individual may take it to their department head or to the head of their particular operating unit or hospital. Some inquiries have gone directly to the Commissioners and President Stroger's office.

Director Greenspan asked if the Committee would want to review the candidates before a Corporate Compliance Officer is engaged.

Board Chairman Batts stated that it would be a wise and proper thing to do. He asked for a motion.

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Director Greenspan, seconded by Director O'Donnell, moved to have the Audit Committee review the candidates before a Corporate Compliance Officer is engaged. THE MOTION CARRIED UNANIMOUSLY.

Presentation by State Senator Jeffrey Schoenberg, 9th District

Chairman Muñoz informed the Committee that State Senator Jeffrey Schoenberg had a conflict and could not attend the meeting.

Mr. Small provided background information on the issue. He stated that during the regular Legislative Session that had recently ended, Senator Schoenberg introduced a resolution to the appropriate committee in the Senate which called for the Inspector General to engage in a management audit of Stroger Hospital. At the time that the resolution was introduced, the President's Office, through the appropriate vehicle, communicated to both Senator Schoenberg's office and to others on the appropriate committees that the County felt that it was premature. Any discussions that happened with Senator Schoenberg with the possibility of audits had occurred long before the System Board had been established by the ordinance, so the thought was to let this Board get established and assimilated with the charge that it has been given at this time.

In conclusion, Mr. Small stated that the Senate resolution was ultimately defeated, however, the Senator is still interested in discussing the subject.

Director Greenspan stated that it is his understanding that if such legislation is resurrected by the Senator, it would not happen until veto session, which is three to four months away. It may be wise for the committee to get its rules and structure in place and make use of such a review to help the committee members restructure, examine and look for strengths and deficits in the organization as a way of planning into the next fiscal year.

Director O'Donnell asked if there is a downside to doing an audit or are any funds put at risk as a result of the outcome of the audit.

Mr. Small stated that question is hard to answer because in the resolution language was vague and its scope was undefined.. It was proposed to ask the Inspector General to conduct a "Management Audit". In conclusion, Mr. Small stated that it needs to be a joint discussion so that it is the most profitable use of time and energy on the part of the individuals involved and the information that is presented is beneficial to everyone.

Director Greenspan asked if it would be useful as a starting point to invite Senator Schoenberg to come and address the Committee.

Chairman Muñoz stated it may be a wise thing to do to listen to what the Senator's intentions are and determine how they could work together.

Board Chairman Batts stated that the System Board has two charters that need to be acted upon quickly; one of which is to hire a CEO to build the organization to a reasonable level of management; and to develop a strategy for the hospital system within 180 days. Anything that would divert time, manpower

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or resources from getting that done would not be helpful to the System Board in executing their responsibilities at this point.

Chairman Muñoz stated that the Audit Committee should contact the Senator and speak to him to find out the issues and what his concerns are.

Director Greenspan, seconded by Director O'Donnell, moved to adjourn. THE MOTION CARRIED UNANIMOUSLY AND THE MEETING WAS ADJOURNED.

Respectfully submitted,
Audit Committee of the
Board of Directors of the
Cook County Health
and Hospitals System



Dr. Luis Muñoz, Chairman

Attest:



Matthew B. DeLeon, Secretary

**** The audio recording for this meeting is available from the Office of the Secretary to the Board, 118 North Clark Street, Room 567, Chicago, IL 60602.**